

Testimony of Leonard Schoppa before the House International Relations Subcommittee on Asia and the Pacific, April 20, 2005

Amidst recent tensions in the United States' relations with China over the Anti-Secession Law and with South Korea over how to deal with the North Korean threat, our relations with Japan stand out as a rock of stability. President Bush and Prime Minister Koizumi have enjoyed a cordial relationship that has grown closer in the period since Japan decided to commit troops to Iraq. The trade wars that used to cause us difficulty appear to be behind us (with the exception of beef after the BSE scare). Even Japan's banking crisis, which was a major concern several years ago when it was in danger of destabilizing global financial markets, is finally under control. Given the tendency of our political system to pay attention to foreign countries only when there is a crisis, I must applaud this subcommittee for deciding to take a *proactive* look at "a changing Japan" at a time when there are few readily apparent signs of trouble. The goal, I assume, is to identify emerging trends that might cause us trouble in the future. In my testimony today, I'd like to focus on three trends related to domestic politics that we should be watching closely.

The first trend is the decline of the Liberal Democratic Party (LDP). As most of you know, the LDP governed Japan continuously and with complete control over all cabinet seats from 1955 to 1993—a continuity in power that contributed greatly to the stability and maturation of the U.S.-Japan alliance. Since a group of LDP members split off from the party in the summer of 1993, however, the LDP has been *unable* to win a majority of seats in the Lower House of the Diet. In elections held in 1993, 1996, 2000, and 2003, the party won the largest number of seats, but in each case it fell short of being able to rule on its own. The fact that the LDP has found partners that have made it part of the ruling coalition since 1994 and that the party has supplied the prime minister since 1996 should not obscure the fact that the LDP is a party with a shrinking voting base and that it could easily cede power to a rival coalition before or after elections that are due to be held by the summer of 2007.

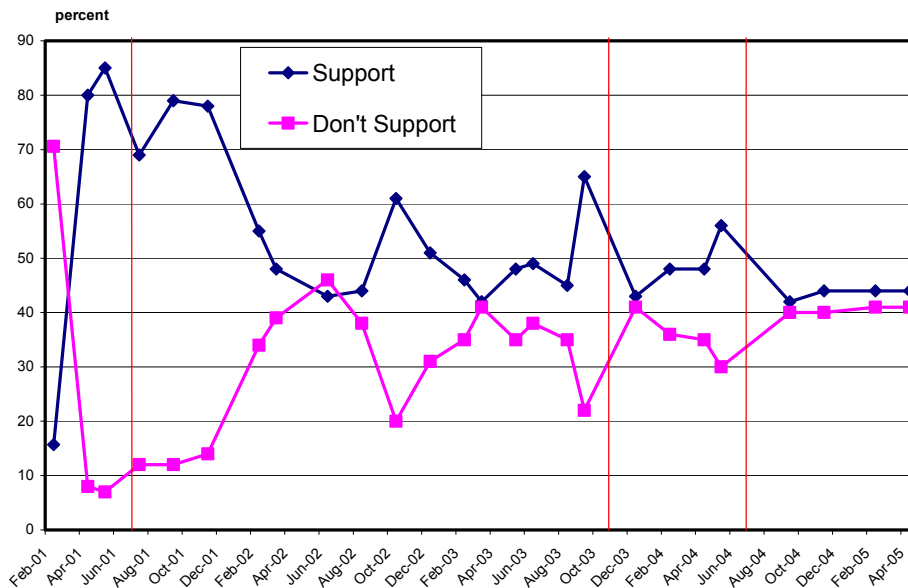
The scenario we all want to avoid, I think it's fair to say, is the one that has played out in our relations with South Korea as our long-time partners in the bilateral alliance in the Grand National Party have been pushed into the minority there by President Roh Moo Hyun and his supporters in the Uri Party. Both the president and leading figures in this party seem to have a very different attitude toward the US-Korea Alliance than the politicians we were accustomed to working with in the past; they appear not to share our apprehensions about developments in North Korea; and they appear to be much friendlier toward China than are members of the GNP. This experience in our relations with South Korea suggests we should be paying close attention to how the LDP is faring in its efforts to avoid being ousted from power—and that we should be preparing for the day when a new generation of politicians, perhaps from the current opposition parties, come to power.

Is the LDP really in trouble? Koizumi's ability to hold onto his office for four years, earning popularity ratings that at times exceeded 80 percent, might seem to suggest that the old predominant LDP is back. Such a conclusion would be wrong. Koizumi earned his highest popularity ratings early in his tenure (see the figure below) after he won the office in an internal LDP contest *against* the party's old guard: the Hashimoto Faction. He pledged to change the LDP, and the Japanese public cheered. He called for cuts in public works spending in the face of opposition from leading figures in his own party, and his popularity ratings soared.

Four years later, few are cheering. Koizumi has been able to trim pork barrel spending slightly, but Japan still spends a much larger share of its income on public works than other industrialized nations. The Prime Minister lost high profile battles to put the breaks on new highway construction and stop the flow of postal savings funds into money-losing public corporations. He is currently fighting one last battle to privatize the postal services (including postal savings), but few believe that these reforms will staunch the flow of fiscal red ink that has caused Japan's public debt to exceed 160 percent of GDP.

Koizumi's failure to deliver on his pledge to reform the LDP leaves the party extremely vulnerable. While the prime minister's support ratings have been consistently above 40 percent, the LDP's ratings have hovered near 30 percent. At the Upper House elections last summer, the party won fewer proportional representation votes than the Democratic Party of Japan (DPJ). The LDP did best among voters *over 70* and in the most rural areas. The DPJ was stronger than the LDP among younger voters (those under 60) and in urban areas. With the cohort of voters over 70 gradually passing away and rural areas losing population, the LDP is likely to win even fewer votes at the next election—especially since the LDP's term limit rules (which bar Koizumi from seeking reelection as party leader in 2006) will force the party to face the voters without the leader that helped them boost their popularity in recent years. The party will do especially badly if it goes into this election with one of the next generation leaders that made his name opposing Koizumi (KOGA Makoto or ASO Tarō).

Koizumi Cabinet Support Rates, 2001-2005



Source: *Nihon Keizai Shimbun* public opinion surveys; vertical lines indicate the dates of general elections: for the Upper House in July 2001, for the Lower House in November 2003, and the Upper House in July 2004.

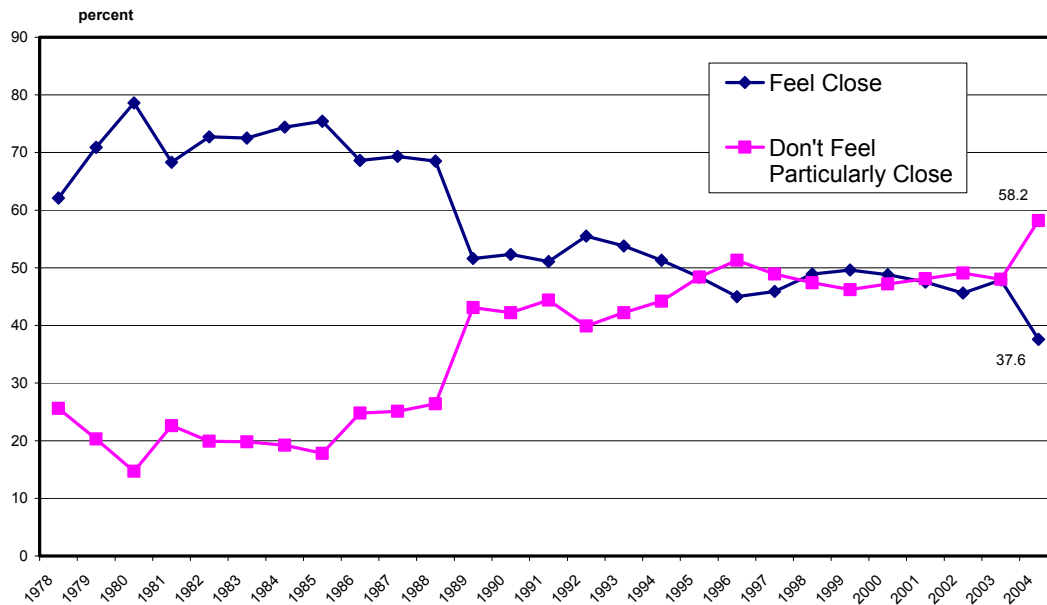
This prognosis suggests the United States should not let the warm relationship between Bush and Koizumi or concerns about the DPJ's position on the Iraq deployment keep it from cultivating relations with leading politicians from outside the LDP. The good news is that the Democratic Party of Japan, unlike the old Japan Socialist Party, is quite comfortable with the U.S.-Japan Alliance. OKADA Katsuya, the current leader, is a former Ministry of International Trade and Industry official from a prominent business family whose middle of the road views on economic and security issues should not worry the United States. One factor that has made our relations with young Uri Party politicians in South Korea difficult is their perception that we favored the conservative establishment for too many years. We can avoid this outcome in Japan by being careful to keep good relations with the opposition and by preparing to work with DPJ leaders should they come to power. A final related point: we should also be watching closely how Kōmeitō, the LDP's partner in the ruling coalition, reacts to the LDP's declining popularity, since this centrist party with close ties to a Buddhist religious group could accelerate a change in power by switching sides.

The second trend to watch, with implications for domestic politics, is the surge in "nationalist" rhetoric across East Asia. This past week we witnessed an outpouring of such sentiment in China, with violent anti-Japanese demonstrations sparked by the Japanese government's decision to approve history textbooks that do not fully describe atrocities committed by the Japanese military during the Pacific War. A year ago, Japanese were shocked by similar displays of Chinese animosity during the Asian Cup soccer tournament when fans threw bottles at the Japanese team's bus and fans chanted "kill, kill, kill" at Japanese fans during the match. As a Chinese official undiplomatically pointed out, the anti-Japanese sentiment in China is at least in part a result of Japanese actions. The Japanese military did commit atrocities during the war, and Japanese politicians and textbook regulators have repeatedly aggravated war memories through words and actions that have convinced Asian neighbors that the Japanese have not fully owned up to what they did. That does not justify Chinese behavior in any way, but it does suggest that both sides need to take actions that ameliorate the situation.

The danger is that Japanese politicians will instead seek to boost their popularity at home by engaging in nationalist rhetoric of their own. Already ABE Shinzō, another contender in the race to succeed Koizumi, has shown how this can be done by taking a hard line with the North Koreans on the issue of abductees. The high profile he took in the negotiations has done little to improve relations with North Korea or resolve any of the difficult issues involved, but he did boost his popularity ratings. Koizumi has similarly played to the home crowd with his refusal to budge in his insistence on visiting Yasukuni Shrine where war-dead, including Class A war criminals, are interred. The visits to Yasukuni are an important reason why so many Chinese and Koreans have been upset with Japan lately.

Japanese politicians are likely to face even greater temptations to engage in such behavior in the coming years because the attitude of the Japanese public toward China has been steadily shifting (see the figure below). When Japan first normalized relations with China in the 1970s, most Japanese "felt close" to China. That attitude changed toward a more neutral position after the Tiananmen Square incident in 1989 and never really recovered during the 1990s. The incident involving the soccer team, combined with the steady rise of China's economic power, seems to have led to another shift in the most recent poll last October. The proportion of the public that "doesn't feel particularly close to China" (*shitashimi o kanjinai*) is now 58.2 percent, still short of the 78 percent who feel that way toward Russia but approaching that number. If incidents like those last week continue, it is easy to imagine that Japanese politicians could be tempted to play to these sentiments by turning up the volume of their own nationalist rhetoric.

Japanese Feelings Toward China



Source: Cabinet Office, *Gaiko ni kansuru yoron chosa*, October 2004.

This situation is of utmost concern to the United States since Japan and China are two of our leading trading partners and two of the most powerful countries in the world. It may seem tempting to some inside-the-Beltway analysts to egg on this conflict in order to bind Japan to us in the coming struggle to contain Chinese power, but that would be a grave mistake. The danger is that hostile relations between Japan and China (and between Japan and North Korea) will make our efforts to resolve disputes in this region more difficult, and perhaps impossible. It has been hard enough for Japan to gradually expand its security role within the alliance. In a climate of excited nationalism on the part of Asian publics, it will become impossible for Japan to continue moves in this direction without aggravating relations with all of its neighbors. Our job of maintaining alliances and encouraging the peaceful resolution of conflicts in this region will be much easier if we can encourage Japanese politicians to deal calmly with provocative incidents and take steps to mend relations with their Asian neighbors.

The final pair of trends that need to be watched are the nation's mounting public debt at a time when it faces a rapid aging of the population. Japan now has the oldest population profile in the world, and the society is continuing to age rapidly. By 2025, 29 percent of Japanese will be over 65. Compounding the difficult fiscal challenges Japan faces because of the rapid pace of its aging is the fact that the nation has wracked up gross public debt equal to 160 percent of its GDP and is adding about 7 percentage points to this figure every year. Given the difficulty *our* nation is having dealing with a Social Security "crisis" that is minimal in comparison to the challenge Japan faces, you don't need me to tell you that it will be a monumental task for Japanese politicians to adopt the benefit cuts and tax increases needed to deal with this situation. A measure of this challenge is the reaction of Japanese voters to the government's attempt to patch up their pension system last spring. Koizumi pushed through legislation that will increase pension premiums by *five percentage points* over the next ten years, while also trimming benefits. Just after these changes were adopted, however, the government announced that the fertility rate

had dipped even lower than projected—a development that suggests additional benefit cuts and tax increases will be required in the future. The public also learned that the legislation just adopted included provisions for an infusion of general revenue into the National Pension System that will have to come out of unspecified *additional* tax increases in the future. Japan’s voters therefore have continued to worry about whether the pension system will be there when they need it, and they took their frustration out on the LDP at the Upper House elections last summer.

How exactly Japan addresses its debt and demographic problems is not a major concern for the United States, but it is important to us that they figure out some way to *slowly* bring their books into balance while adopting structural reforms that allow the private economy to offset the drag of fiscal restraint with vibrant productivity growth. The first danger we want to avoid is the possibility that the difficulties of raising taxes and cutting spending lead the nation to postpone confronting its public debt problem until it is in such dire shape that high rates of inflation become the only way to make the debt go away. Such a fiscal crisis, in the nation that is the source of much of the world’s capital (including much of the capital that finances our own deficits), would have major effects on the United States economy. Despite Koizumi’s efforts to remake the LDP into a party of fiscal rectitude, recent setbacks in his efforts to push through his legislative program suggest that the post-Koizumi LDP will continue to be prone to postponing difficult economic decisions as long as possible.

At the same time, we want to avoid seeing fiscal reconstruction proceed quickly without structural reforms designed to unleash productivity growth and stimulate the economy. A Japan that *shrinks* during its period of fiscal consolidation—perhaps coinciding with our own period of “rebalancing” after running up deficits here—will serve as a major drag on global economic growth. We need Japan to do its part to serve as an engine of the world economy so that we avoid problems of recession, debt crises, and associated social turmoil in volatile regions of the world. This prospect might be something we have to worry about if the DPJ comes to power on a platform of fiscal reconstruction since that party’s ties to the unions have made it hard for it to support deregulation and labor market reforms needed to make the economy more productive.

The good news is that what we want for Japan should be exactly what the Japanese want. What we need to do is to use our influence, through summit meetings and global economic meetings, to pressure Japanese politicians to strike the balance between deficit reduction and structural reforms that keep the economy growing steadily. My conclusion here about the correspondence of interests between Japanese interests and our own applies to the other two areas I discussed as well. Both Japan and the United States have an interest in preventing an escalation of tensions between China and Japan. We have an interest in maintaining our alliance, regardless of which political party is in charge. If the Congress and the executive branch avoid the danger of *neglecting* this important relationship, it should be easy for us to continue to count on it as a rock in an unstable region.